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COUNTRY DEVELOPMENT STRATEGY STATEMENT

AFGHANISTAN 1978

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

AFGHANISTAN 1976

I. Basic Strategy

The Mission has reviewed the dimensions and characteristics of poverty in Afghanistan. It concludes that current Government approaches to economic and social development have not ameliorated the problems of poverty nor, indeed, even addressed seriously the population's most basic human needs. The reasons for this failure are that:

- the current GOA development model is inappropriate in terms of the country's comparative economic advantage and its relevance to basic human needs;
- income levels are too low to permit the poor to meet basic human needs; and
- the capacity of Government to plan, mobilize and manage development resources is seriously inadequate.

The AID program has not systematically challenged GOA approaches and strategies to economic and social development. Rather, we have worked largely within the Government's policy framework. As a result, AID is only marginally responsive to the basic needs of the poor and the demands of its own mandate.

The Government of Afghanistan identifies reducing poverty and meeting basic human needs as an objective of its development. Its actions have belied this. If it is to meet this objective, it must:

- reorient and rationalize its development approach to take account of the country's comparative economic advantage and its potential for meeting basic human needs;
- give priority to increasing the productivity and income levels of the poor;
- increase the participation of the poor in basic health and education; and
- assure that economic and social gains are not frustrated by population growth.

If a donor is to influence Government approaches to economic and social development, the Government must be willing to entertain donor participation at the center, rather than the periphery of development. It also presumes the willingness and capacity of a donor to assume the posture of a major donor. Levels alone do not assure leverage. Rural construction, without a rural strategy, suggests a peripheral involvement. Price stabilization within the context of a national food policy is at the center.

Circumstances in the past kept AID from engaging the Government on fundamental issues. As a result, the Mission adopted a responsive posture rather than an initiatory stance. It was unable to develop data on the who, what, and whys of poverty in Afghanistan or to maintain its position in the planning process. The consequence is that AID has a program directed at the periphery, rather than the central issues of development.

In 1971, a World Bank mission wrote of the pervasive "disillusionment about the past and pessimism regarding the future". They concluded that "such pessimism is justified as even in areas where development activities were undertaken, with heavy inputs of capital investment and foreign advice, returns have been disarmingly low." In 1975, Afghanistan appeared to remain at this nadir. The USAID Development Assistance Program for Afghanistan wrote of development that "mushed along, frequently not achieving targets nor even producing results worth the investments".

In 1977, a World Bank mission wrote "the time for pessimism has passed". The members of that mission expressed confidence that "substantial progress will be made in the next ten years towards the goal of higher income levels and meeting basic human needs of the population". We are cautiously optimistic. There are three major differences from that earlier time that lead us also to this conclusion:

- In the past, the GOA has shown little interest in a development strategy. Projects meeting a "needs" criteria were seldom presented by, or acceptable to, the Government. Recent Government initiatives with regard to food grain price stabilization, village based health systems and education sector analysis are positive signs that this situation is changing.

- There is a growing appreciation by donors, and by some elements of Government, that if donor resources are directed to fundamental issues, they may positively leverage Government policy, programs and procedures. There is also a desire on the part of donors to act cooperatively; and, for the first time, there is a willingness by the Government to permit them to do so.
- Finally, in 1971, it was difficult to identify the elements of a growth strategy. External markets were remote, and the tiny domestic market offered little prospect for industrialization. The oil price rise has benefited nearby markets which Afghanistan is uniquely well-placed to supply with agricultural products. Past investments in agricultural infrastructure have already demonstrated increased production capacity. A strategy led by agricultural exports reflects comparative economic advantage.

Given the opportunity to move our program to the center of development issues and the necessity to do so if we are to have a significant role in encouraging and supporting Government's development objectives, USAID must assume the posture of a major donor. This means:

- taking a systemic view of the development process and structuring the AID program toward fundamental development objectives;
- making necessary investments in sector analyses to develop programs addressing basic human needs;
- prompting and supporting Government requests for planning assistance;
- sharply increasing the levels of U.S. assistance to Afghanistan and moving a large portion of the assistance portfolio to sector programs which more comprehensively confront fundamental development issues;
- initiating problem oriented management analyses and assistance; and
- structuring the Mission to the requirements for sector analysis, program development, project design and evaluation.

None of this is to suggest that there has been a fundamental breakthrough in reorienting plan targets or the administrative and management morass of Afghanistan, but rather that the opportunity exists. There are problems. While serious discussions concerning grain price stabilization are proceeding with the Ministry of Plan, its Food Procurement Department continues to champion the narrower interests of the urban consumer. While the Minister of Public Health has articulated a new National Health Policy, his Ministry continues to allocate the majority of its resources to urban hospital care; and while AID stands ready to obligate additional funds for rural construction, the implementation of most programs is at a standstill. The problems are many, but the opportunities and our mandate clearly outweigh the risks.

Given the history of Afghanistan's development efforts and AID's relationship to them, a transitional strategy will be necessary to move us from where we are to where we want to be. The transitional strategy rests on the assumption that moving the Government's policies and programs will be a process in which its willingness and capacity will be challenged, tested and, when appropriate, supported.

- Challenge. The Mission is prepared to challenge the Government to reorient its development approach to take account of the country's comparative economic advantage and its potential for meeting basic human needs. The proposed price stabilization of food grains program is central to this challenge. PL-480 grains are available to support such a reorientation not to underwrite the current development approach. Similarly, the Mission is prepared to challenge the Government's willingness to shift priorities to the needs of rural development and to accept the poor as a productive resource. Their willingness to address poverty directly and in the village will be met by AID support. It is not our intent to support national programs which are based on little understanding, indeed little concern, of the poor and which have only a limited impact on much of the rural sector.
- Test. The Mission will test Government where there is evidence that projects and programs can and should be re-directed at fundamental development issues. In health, the Government has indicated that it is committed to nationwide implementation of a service delivery program. The Mission is prepared to test whether, in a specific area, it is possible to recruit and train workers, supply and supervise them, and develop a functional referral system so that a

majority of the population begins to receive the benefits. If, at the end of the test, it can be demonstrated that the system is workable, relevant and accessible to the majority of the population, the potential for a health sector grant exists. A sector grant would be based on performance, concrete evidence that accomplishments are genuine, and a commitment to meet the financial and policy requirements arising from the experiment.

The Mission is also prepared to test Government commitment to basic education for the majority. There are two fundamental issues: relevance and efficiency. The Mission is initiating a new project directed at teacher training and is reorienting the current primary school construction project. In both cases, the project will be premised on issues of relevance and efficiency. If there is evidence during the design and negotiation of these projects that the Government is prepared to deal directly and effectively with the issues, the Mission would then undertake a more comprehensive sectoral approach to basic education.

The Mission also is prepared to finance immediately the range of sectoral analyses necessary for the broad based support of programs addressed to poverty and basic human needs. This is absolutely necessary to assure that neither we nor the Government are forced to sector or policy decisions without the necessary data and analysis. The Mission is also prepared to prompt and finance planning inputs arising from these initiatives.

- Support. From the above process, systemic analysis, challenging and testing, the Mission expects to be able to support a more broadly conceived program directed to fundamental issues.

A critical concern, of course, is the capacity of the Government to manage development programs. Four components of the transitional strategy are directed to this issue:

- in challenging Government to work at the village level on income programs, the Mission believes it may be able to work effectively with discrete elements of ministries on area programs without making the success of those programs totally dependent on national systems. This will permit the introduction of problem solving techniques to bureaucracies in a concrete, rather than abstract context and will facilitate the movement of policy and management initiatives up through the system;

- while testing Government commitment, the Mission will make selective investments to strengthen institutional capacity so that sectoral programs can follow on in the support phase. In health, there will be a substantial increase in financing for the development of management systems. In education, investments in strengthening the institutional capacity of both the teacher training and school construction projects are seen as essential and necessary conditions to national or sectoral elaboration;
- in designing its program, the Mission will try to identify and use local management capacity. This is important in Afghanistan where administrative workability and the feasibility of mustering the necessary local support for effective implementation have been traditionally overlooked;
- finally, the Mission will build on its efforts to identify and address pervasive administrative and management constraints in national systems. The Development Support Training Project is an important first initiative.

In the near term, the transitional strategy carries with it the seeds of confrontation. The Government has been conditioned to a more complacent AID posture. Recent experience with the Anti-opium Poppy Agreements and the Conditions Precedent for the Helmand Valley and Integrated Wheat Projects all point to increasing sensitivity by the Government. But the confrontation is necessary. Our challenging and testing is essential to define the size and nature of our support based on knowledge, tested willingness and a fair measure of true capacity.

It is essential that this strategy be discussed frankly with Government. That process has already begun. Both the Ambassador and USAID Director have indicated our willingness to increase levels substantially to the extent opportunities can be developed to impact the poor directly and in the near term. They have carefully pointed out the consequences of such a commitment: AID will be a more visible agent in the development process; and more importantly, AID commitments will be linked to Government performance. This last point has been particularly emphasized. Whether it is fully appreciated remains to be seen, but our recent experience would indicate that we are being heard.

The discussion which follows is related to what the Government and AID must do if Afghanistan's development is to address successfully poverty and meet basic human needs. It must:

- reorient and rationalize its development approach to take account of the country's comparative economic advantage and its potential for meeting basic human needs;
- give priority to increasing the productivity and income levels of the poor;
- increase the participation of the poor in basic health and education; and
- assure that economic and social gains are not frustrated by population growth.

II. Reorienting and Rationalizing the Development Approach of the Government of Afghanistan

In considering a development assistance strategy for Afghanistan, the Mission identified a set of major issues for national policy. It is not an exhaustive listing. Moreover, given the uncertain availability and reliability of data, the discussion is by necessity heavily qualitative. The issues are summarized below:

- Government strategy, as reflected by the Seven Year Development Plan and budget allocations, is directed to capital intensive heavy industry, yet its comparative advantage is clearly in agriculture. World experience of the last twenty years, and the economic situation here, suggest that heavy industry is neither a sufficient nor necessary condition for economic development. Afghanistan's comparative economic advantage lies in the processing of agricultural surpluses both for the domestic market and for export. It is also the key to increasing income levels of the poor. Afghanistan's development strategy must be directed to agriculture-led growth.
- Basic human needs are not being met, yet national services are directed elsewhere. Resources available to Government are not allocated rationally or equitably, either between or within sectors. Health care is focused on urban oriented hospital care; problems call for a village oriented health program. Education is concentrated on preparing students for University entrance; the great majority will get no education or will terminate early and remain in their village with little relevant preparation for work or life. Resources must be reallocated to reflect the basic needs of the poor, and to help increase their productivity and incomes.

- The levels of investment necessary for development are constrained by the limits of GNP and Government revenues, yet the GOA is not maximizing opportunities for resource mobilization and utilization. In addition to pursuit of a sensible growth model and traditional revenue generating measures, the Government must do more to utilize private income (i.e., fee for service), encourage private investment, and maximize non-monetary investment (i.e., self-help).
- Government resources are seriously limited, yet their utilization is grossly inefficient. Management weaknesses are pervasive. Immediate steps must be taken to improve the efficiency of Government programs.
- Population growth threatens the development prospects for Afghanistan, yet the Government gives virtually no attention to this problem. While the Government has tolerated a modest family planning program in Afghanistan, it must come to recognize population growth as a key determinant of the country's development prospects.

A precondition for reorienting current Government approaches to economic and social development is better analysis. The Mission is taking a systemic view of the development process. Sector assessments are underway in the four major areas: agriculture, education, health and population. It is prepared to make immediate investments in sector analysis. A specific proposal is on the desk of the Minister of Education. The Mission is also prepared to prompt and/or meet Government requests for planning assistance. We believe there may be an opportunity in the area of demographic analysis and planning within the Ministry of Plan.

We will also seek to rationalize the process through concrete projects testing the validity of the reorientation called for above. If we are successful, we will seek sharply increased levels and move a large portion of our assistance portfolio to sector programs. The issues identified above will condition our approaches to discussion with the Government, program development, project design and evaluation.

In our discussions with the Government, it will be as important to define what we are not prepared to do as to outline our positive intents. A summary of the limits to our strategy follows:

- we are not prepared to entertain requests outside our strategy and which do not directly affect the early fulfillment of basic human needs;

- we are not prepared to fund projects which do not accept the poor as a potentially productive resource;
- we are not prepared to support projects which are not based on equitable participation or do not offer the prospects for broad based coverage;
- we are not prepared to support projects which fail to recognize the necessity for private and/or non-monetary investment;
- we are not prepared to subsidize sector inefficiency by making up the difference with assistance levels; and
- we are not prepared to consider any project or program without careful Government attention to its implications for population growth and equity.

III. Giving Priority to Raising Productivity and Income Levels of the Poor

Most basic needs are met in the market. They include minimum requirements for private consumption. But the market can perform only as well as need can be translated into effective demand. Income is the key. Although other elements of basic needs, such as health and education, are maintained through national systems, they are not unrelated to income levels. Taxes and fees for service, for example, both arise from income. To the extent basic needs are not being met, either incomes in general are too low or inequitably distributed. Both are the case in Afghanistan.

A reorientation of economic strategies and policies could significantly increase national income. Indeed, the prospects are dramatic: the World Bank estimates that an agricultural-led growth strategy could achieve a seven percent annual growth rate or a doubling of national income within a ten year time frame. This extraordinary opportunity for economic progress and its potential for fulfillment of basic human needs is pivotal to formulation of development strategies and policies in Afghanistan. But it is not to suggest such reorientation alone could work miracles. There are obvious limits and concerns:

- it will be difficult for Afghanistan to realize this potential growth rate since traditional practices of the rural population are deeply engrained and Government capacity to affect change is limited;

- regardless of actual growth rates, the absolute levels of resources available for meeting basic needs will continue to be seriously constrained by the limits of GNP and the paucity of domestic revenues. Additionally, while the advantages of an agricultural growth strategy are clear, generating tax revenues from the agricultural sector is difficult. Opportunities for redistribution are extremely limited;
- substantial portions of the Afghan population, and even entire regions, have not benefited from the country's overall development. The World Bank estimates that at least twenty percent and perhaps as many as forty percent of the population are in absolute poverty. This problem is clearly more serious in the rural areas than cities, but even in rural areas, there are significant discrepancies. The more advantaged, because of their participation in the market, are already better able to meet their basic needs and to take advantage of the agricultural growth potentials. Government programs are not directed to the disadvantaged who subsist outside the market system.

The near term strategy for reducing poverty and meeting basic human needs is: shift priorities to meeting the needs of rapid agriculture development but focus on increasing the productivity and income levels of the disadvantaged poor. Afghanistan is fortunate that the development strategy which will provide a direct impact on rural poverty is also the country's best growth strategy.

Basic human needs must be met in the market. Income redistribution and Government programs are not alternatives in the near term. The subsistence farmer by need and potential, then, is the appropriate assistance target. By increasing his market participation, both individual and national incomes will increase.

Where there is both an understanding of common constraints to market participation and a capacity to address these constraints for all areas, we will respond with appropriate nationwide programs. Food security would appear to be a problem that can be addressed in this way. But where there is not an understanding, or where constraints are not common to all areas, we will respond with appropriate area programs.

Nationwide Programs

It is impossible to identify a national pattern of constraints. It is difficult, without field analysis, to suggest how one, or even a combination, of the usually identified constraints will impact on access, productivity or income. All too often, AID has selected a facile solution and then searched the country for a constraint situation to which it might be applicable.

Risk is a constraint, however, which appears to exist across the board, is efficiently addressed on a national scale and exists relatively independent of other constraints. There is evidence that farm families, even with cash market access, are unwilling to risk security for cash if food is not available or perceived as available. Food security is an objective the Mission proposes to address on a nationwide basis.

There are two alternatives for assuring food security; increasing production of wheat to provide sufficient surplus for use in drought years; or, relying on imports to supplement domestic production. The first means that relatively more land must be devoted to wheat production. The farmer on irrigated land loses in terms of comparative advantage, and the farmer on rain-fed land loses because of the absence of an assured market offering sufficient incentives. The second alternative offers increased income prospects for all categories of farmers and reflects the country's comparative advantage.

An important element of our market strategy is to increase wheat production on the lands where high-value crops are not an alternative, and to increase high-value crop production on the better lands.

This strategy requires a policy to stabilize wheat prices both to assure adequate market incentives for the rain-fed area farmers and to assure a secure supply at reasonable prices for the farmer foregoing wheat production. A program of domestic procurement, stabilization, imports and storage is key to this strategy. More importantly, it challenges the Government to reorient its development approach. This fact will be crucial in determining future U.S. support. If the Government pursues this strategy, the Mission will propose a major PL-480, Title III program in coordination with other inputs from the World Bank and United Kingdom. As another element of this strategy, USAID has

initiated a phased effort directed to testing the prospects for increasing wheat production in rain-fed areas and productivity on irrigated lands.

The Mission is looking at other constraints best addressed in a nationwide context.

Area Programs

Development begins in the village, and development programs must reflect the needs of the rural population living in the village. The data base is bare. While there has been considerable work done on various aspects of the agricultural sector, there has been little or no analysis of the prospects of various agricultural strategies for the productivity and incomes of the poor. Until that is done, there will be little opportunity for reorienting the Government's development approach.

National systems in Afghanistan are not focused on the poor and all too often are skewed to supporting the already modernized sector. AID will attempt to reorient these systems, but administrative and managerial weaknesses argue against the likelihood of this in the near term. There are opportunities, however, to develop programs at the village or regional level which could directly and immediately affect the productivity and income levels of the poor. Working through national systems at that level would also permit the introduction of problem solving techniques on a more manageable scale to bureaucracies totally unfamiliar with such processes. It would also facilitate the movement of policy, program and management issues up through the system. Finally, it would build on the strength of national agricultural institutions-- supporting cash market systems.

A second element of our market strategy is to address specific constraints to cash market participation of specific populations in specific regions. This approach is not exclusive of working within national systems, but it will enable us to work with such systems at an appropriate scale and with focus.

There are no reliable data on cash market activity, per-capita income levels and distribution or even regional income levels and distribution. The Mission, therefore, has taken surrogate indicators which reflect our best judgment on income and cash market participation. Our analysis has resulted in identifying possible target regions. In and within these regions, ground verification will be necessary to identify appropriate populations and the critical constraint patterns. Possible areas are:

- Northern Region : Faryab and Jawzjan
- Northeast Region : Badakshan and Takhar
- Western Region : Badghis and Farah
- Southern Region : Ghazni and Zabol
- West Central Region : Bamyan, Ghor and Oruzgan

Although we are unable to order constraints, articulate their interdependencies or their particular relationship to cash market participation, we can identify them by category. They include: risk, inadequate and unreliable water supply, lack of market access and agricultural services, land ownership patterns, inappropriate agricultural technology and confining institutional arrangements.

The Mission will initiate the analyses necessary to identify programs at the regional level based on field analysis of village level constraints to increased productivity and incomes of the poor. Our strategy is to move farmers from subsistence to greater cash market participation. On rain-fed lands, that means a crop focus on wheat. On irrigated and partially irrigated lands, that means a crop focus on cash potentials. In all cases, it probably suggests integrated agricultural development in specific areas.

The above strategy does not directly address the problem of those excluded from cash market participation, i.e., agricultural laborers and those farm families who own very low quality agricultural land. This group presents a particular dilemma for the Mission. Three approaches have been considered. None are entirely satisfactory, but we intend to explore ways we can address the problems of this group:

- settlement is the solution proposed by Government; and AID has supported the effort in the Helmand. But re-settlement has been expensive, particularly in Afghanistan where irrigation has been used and where irrigation infrastructure is essential;
- institutional reform is another alternative. There are at least three aspects of the traditional institutional structure in Afghanistan that hinder progress in cash market participation: share-cropping, fragmentation of land holdings and water rights. None are likely to be solved easily in the near term;

- off-farm employment represents a third alternative. In the near term, prospects for on-farm agricultural labor will probably increase as production of high-value crops increase. Over the longer term, it will be necessary to provide off-farm employment for rural workers. The overall growth strategy should lead to such opportunities. In the interim, Afghanistan is fortunate that the Middle East labor market provides an escape valve for employment pressures.

IV Increasing the Participation of the Poor in Basic Health and Education

There are a range of basic needs inadequately met in the market. Health and education are critical examples. National services are faced with almost staggering problems. These are a result of previous strategies based on too little knowledge, planning and resources. National services, as a result, are largely inappropriate, inadequately financed and inequitably available.

National services are not directed at the basic needs of the poor. Health care is focused on event defined, urban oriented health care. The problems threatening people's lives call for a continuous, village oriented health program. This fundamental anomaly is reflected in resource allocations, institutional mandates, and, tragically, in mortality and morbidity statistics. The education system is equally off the mark. It is concentrated on preparing students for university entrance, yet the great majority terminate earlier with little relevant preparation for work or adult life. It fails absolutely both in terms of basic needs and economic development.

The financial plight of national services is deplorable. Total health related public expenditure comprised only 0.65 percent of GNP in 1976/77. The share for education was 1.7 percent. In addition to inadequate financial support, there is serious mis-allocation and inefficient use of what limited resources they have. Almost fifty percent of planned 1977/78 health expenditures are for urban hospitals. Almost forty percent of education's development budget is devoted to higher education. The health services are characterized by low utilization of existing programs even by people with potential access, and in education, drop-outs and repetition are very high.

Improved resource allocations and internal sector efficiency will improve, but not solve the financial problems of national services. The Government's policy of free service necessarily means limited service. In health, there is precedent and opportunity for a fee system. In education, non-monetary investment (i.e., self-help) must be applied to augment public resources. Finally, the national services need to explore the opportunities for shared, community facilities. These are opportunities largely unexplored in Afghanistan.

A. Health

The pattern of illness leading to death in Afghanistan is well recognized. It consists of diarrheal, communicable and respiratory disease. Causes are equally known and rooted in ignorance. They are manifested in poor nutrition, inadequate sanitation and uncontrolled fertility. The situation is compounded by the absence of effective health services. The consequences fall primarily to the vulnerable, the isolated and the poor. In Afghanistan, these are disproportionately women and children. This group must be the focus of any program, although an attack on the fundamental causes of illness will benefit all elements of society.

By any standard, the national health system deserves indictment for neglect. The services of the Ministry of Public Health are largely inappropriate, inefficient, inequitably available and of little standing with a majority of the population. The Ministry is urban centered and curative oriented. With the important exception of the AID funded Village Health Worker and Dai programs, the Ministry has failed to take advantage of the indigenous system which already exists at the village level.

While the indigenous system is a patchwork of myth, tradition and ancient Arab practice, and is characterized by total ignorance of modern medicine, it is in every village and is available equitably. It is also affordable and self-sustaining, and enjoys the confidence of the people.

It is our intent to reorient the national health system to meet the needs of its rural population and relate it where feasible to the indigenous system.

AID, in its current program, is challenging the Government to develop a system centered in the village and focused on nutrition,

sanitation, immunization, health education and MCH/ family planning services. The Mission is also challenging the Government to link its public health systems to indigenous systems and to rely, at least partially, on the market for its financing. The Mission believes the health systems in Afghanistan could draw strength from its dual aspect. Finally, we have made it clear that AID will support only a national system with broad coverage and not one catering by design or default to select portions of the population.

The positive initial response of the Government to our current program in village service delivery suggests the broad outlines of a strategy. Current efforts, while giving cause for encouragement, are too limited in scope to give the answers needed for design of a national program. An expanded effort is called for to answer these questions and to test Government willingness and capacity to support a national program. The following three steps constitute our transitional strategy:

- Field Experimentation. While the overall health delivery system of the country is extremely weak, the directions in which progress is likely have been identified through recent pilot tests. Focus has been on identifying mechanisms independent of the Basic Health Center network, and others which expand each Center's capabilities. Initial results are encouraging, but the question remains whether they are feasible and affordable under normal field conditions. What is required is to test whether, in a specific area, it is possible to recruit and train workers, supply and supervise them, and develop a functional referral system so that a majority of the population begins to receive the benefits.
- Management Systems Development. Even the most appropriate service delivery approaches will have little impact unless they can be implemented effectively by the Ministry of Public Health. The range of management deficiencies is well understood, and initial efforts to resolve them have shown possibility for improvement. Our aim is to focus management systems on the fundamental causes of morbidity and mortality in the village. The reforms required are of such magnitude relative to the current morass of Afghan administrative practices that a greatly expanded effort is required.

The issue is purely a practical one: not whether ideal operating efficiency will be attained, but whether the critical constraints can be relaxed to the extent that acceptable levels of service delivery will be achieved. During the field experimentation, the Mission will work to strengthen institutional capacity of the Ministry of Public Health. This means improving: manpower planning/ training, logistics, financial planning and budgeting, information systems, evaluation and program planning, management training and personnel management.

- Financial Analysis. The final component of the transitional strategy recognizes that knowing what to do and how to do it are of little benefit without the necessary resources. Field experimentation will contribute in two ways. First, carefully collected and analyzed cost data can provide information on resource requirements for national implementation. Second, it can demonstrate whether or not financing through fees for service is feasible.

If successful with this test and if the Government is willing to reorient the national health system to the needs of the village, we believe we can support a sector grant by 1981 that will address fundamental issues and will offer the prospect of nationwide implementation of an appropriate delivery system.

B. Education

In Afghanistan, most people are without access to education. Most of those who do have access, get too little education and of the wrong kind. The price for Afghanistan in terms of lost potential is high. It means, for the rural population, limited opportunity for individual development, improving work skills or controlling their environment.

To correct this situation, the national education system must address two groups. The first are mainly adults whom the educational system has bypassed. Their ability to participate in the development process is seriously impaired by their ignorance. Education would permit them to better benefit from programs to improve their health and environment and to increase their incomes. This group is usually assisted best by non-formal education. The second group, the school age person, must be equipped to deal better in the future with the problems adults face today. Access to school and a relevant education will provide the basis for a more useful and productive life. The formal education system must respond to these concerns.

Village level needs make a persuasive case for giving priority to primary and non-formal education. Primary education enables an individual to conceptualize a future that is different from the one he now faces. It is best suited to promote modern attitudes, impart basic human skills of literacy and numeracy, and improve equity. It can also have a significant impact on expanding opportunities for women and reducing fertility. Both primary and non-formal education are essential if the fundamental changes that must take place at the village level can occur. There is also evidence that, given the low level of national development in Afghanistan, the greater return to educational investment, as well as for equity, will come at the lowest educational levels and will diminish as one moves to secondary and higher education.

Both systems are faced with almost staggering problems.

In non-formal education, there is: In primary education, the system lacks:

- little knowledge of what to impart;
- little knowledge of how to develop and implement programs;
- an inadequate fiscal and human resource base;
- no organization capable of developing integrated non-formal programs.
- relevance: it does not provide skills or knowledge useful for rural Afghanistan;
- efficiency: it trains and produces graduates at exorbitant costs;
- quality: teachers are poorly prepared to deliver useful education;
- equity: the system reaches only a fraction of the nation's boys, and a pitifully smaller number of girls;
- management capacity: this is extremely inadequate;
- organization: there is a split between two uncoordinated, non-cooperating ministries;
- fiscal resources: these are inadequate and misallocated.

It is our intent to reorient the national education system to the needs of the rural population and make it accessible to a broader range of participants.

The Mission is prepared to test Government willingness and capacity to reorient its priorities to primary education and address the real needs of the rural population. There are three steps in our transitional strategy for primary education:

- Teacher Training. A pivotal project for this new strategy is primary school teacher training which complements our previous involvement with school construction and curriculum development. The teacher is key because he/she stands between the child, parent, curriculum, school and community. This project, to be submitted in fiscal year 1978, will help the Government to train teachers so that they can be more effective agents in meeting the needs of the population. The project should affect the examination system, repetition and drop-out rates for pupils and teachers and the role of the school in the village. It will serve to test Government commitment to relevance.
- Expansion of Access. The Mission plans to reshape its primary school construction project in FY 1978. This effort will focus on the kinds of schools that should be built both in terms of different physical configurations and alternate grade systems; where they should be built and in what relationship to other community structures; how they should be financed; and the implications of various construction models for system growth and equity. This project will serve to test Government commitment to efficiency and equity.
- Sector Analysis. Results of these projects in terms of Afghanistan's education needs will initially lie at the margin. If successful in testing concepts of relevance, efficiency and equity, the Mission will consider increasing its support to education. Expansion will require substantially more and better Government educational sector analysis. The Mission will support this effort.

If successful, and if the Government can effectively address these issues and reorient the national education system, we believe we will be able to support a sector grant in 1980 that addresses fundamental issues and will offer the prospect of a more relevant education and dramatic increase in primary enrollments

We have little knowledge of how to approach non-formal education in Afghanistan. We will assist the Government to determine needs and assess Afghan capacity to meet them. For example.

our current project with the Kabul University Research Center is directed at the development of a data base and the institutional capacity to research the sector. Once adequate knowledge and capacity are in place, we will consider specific assistance to support other sector efforts.

V. Poverty, Basic Needs and Population Growth

Afghanistan faces a major population problem. Any significant reductions in mortality will seriously compound it. Continuing the current ineffective public health programs without a population component suggests a population of 46 million in 2025, up from a current level of 14 million. Improvement in the health programs, but still without a population component, suggests a population of almost 70 million. An improved health program coupled with a population component drops those estimates to 39 million.

The choice for Afghanistan, and it is a real choice, is whether its population fifty years from now will be 39 million or 70 million. Policy makers in the Government have not focused on this problem. They have yet to perceive its implications for today.

It is our intent to move on three broad fronts: population policy, integration of health, nutrition and family planning services; and investigation of alternative systems for introducing family planning information and services

- Population Policy

As a matter of priority, the Mission intends to challenge planners and policy makers with the consequences of population growth. The Mission has offered consultants to the Ministry of Plan to review the implications of varying growth rates for Afghanistan's development prospects and alternates. They will review fertility and mortality determinants; their interrelationships with family planning program performance; and the propensity to practice family planning. Then, the Mission will assess with the Government appropriate policy instruments available to it. We are prepared to provide long-term consultants in the area of demographic and population analysis and planning.

- Institutional Framework

Linking health, nutrition and family planning services is likely to increase the acceptability and effectiveness of each. The one institution active in family planning is the Afghan Family Guidance Association (AFGA). It receives no budgetary support from the Government and is entirely supported by the International Planned Parenthood Foundation and AID. AFGA's clinical and training operations should be merged with the Ministry of Public Health. Although that position is now public policy in Afghanistan, the timing and method of the merger are not clear. AID will test the Government's willingness to train MCH/family planning workers under the aegis of the Ministry of Public Health. When this occurs, assistance to AFGA would be continued so that at the point its clinics are absorbed, its commitment to family planning is also absorbed. AFGA could then devote its attention to information, education and trials with new contraceptive techniques.

- Alternate Delivery. The Mission will explore alternative systems for providing family planning information and services. This will focus on: integrating population planning concepts in appropriate formal and non-formal curricula; involving private sector organizations including pharmacies in commercial distribution; and initiating discrete demonstrations in the community (village level) distributing programs that can be replicated within the overall service delivery program.

VI. Conclusion

Prospects for development in Afghanistan are encouraging. An agriculture-led growth strategy emphasizing exports could achieve significant economic growth rates in the short-run. In such a growth context, AID has an opportunity to play a critical role in helping Afghanistan improve the condition of the rural poor through increasing their incomes and providing them access to basic national services.

While prospects are encouraging, success is by no means assured. The key factor will be the determination and commitment of the Government. Past experience suggests caution. The Government has failed to approach development systematically or energetically, has been largely indifferent to the welfare of its poor, and has only passively cooperated with foreign donors. Yet, there are signs that the Government is increasingly committed to development issues and willing to collaborate more closely with donors in addressing them.

Our proposed AID strategy allows us to address development and basic human needs problems in a broad, systemic way, involves us in a dialogue with the Government on basic policy issues, and provides us with the level of aid resources necessary to influence these policies. But it also offers a hedge against Government inertia by carefully premising AID expenditures on their performance and commitment.

The strategy is not without risks. There is a real possibility that by so explicitly linking AID expenditures to GOW performance and commitment, this strategy will lead us to confrontation with the Government and subsequent frustration. Indeed, past AID experience would suggest such an outcome. But, we believe the opportunities for achieving development gains far outweigh the risks. The strategy at a minimum gives assurances that the dialogue with the Government will be on the right issues--which has not been true in the past.

While mindful of these risks, we believe the Mission has an exciting opportunity to play a major role in helping the Government of Afghanistan address its development problems and help meet the basic needs of its people.

**U.S. Development Assistance Program for FY-1978
to FY-1983 by Projects and Categories**

	<u>FY 1973</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Total</u>
<u>FOOD AND NUTRITION</u>							
0131 Rural Development - I	<u>7,291</u>	<u>10,968</u>	<u>9,412</u>	<u>10,000</u>	<u>21,000</u>	<u>18,000</u>	<u>76,661</u>
0149 Central Helmand Drainage - II	2,200	1,617					3,817
0163 Integrated Wheat Development	3,220	6,331	912				10,463
Integrated Wheat - Phase II	1,851	2,017					3,878
Regional Rural Dev. - Phase I			5,000	5,000	4,000	3,000	17,000
Regional Rural Dev. - Phase II			3,500				3,500
Small-Scale Irrigation Technology					10,000	5,000	15,000
Small-Scale Irrigation Development		1,000		5,000	7,000	10,000	22,000
	<u>145</u>	<u>522</u>	<u>1,200</u>	<u>1,250</u>	<u>950</u>	<u>700</u>	<u>4,767</u>
<u>POPULATION PLANNING</u>							
0139 Afghan Family Guidance Association	145 <u>3/</u>	372 <u>3/</u>	300	250	200	200	1,467
MCH Training			750	1,000	750	500	3,000
Demographic Planning & Analysis		150	150				300
	<u>5,800</u>	<u>4,760</u>	<u>4,000</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>38,560</u>
<u>HEALTH</u>							
0144 Basic Health Services	2,800						2,800
Basic Health Services - II	3,000	4,760	4,000				11,760
Sector Grant				8,000	8,000	8,000	24,000

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Total</u>
<u>EDUCATION & HUMAN RESOURCES DEV.</u>	<u>8,335</u>	<u>9,930</u>	<u>18,576</u>	<u>13,951</u>	<u>15,000</u>	<u>10,000</u>	<u>78,612</u>
0142 Rural Primary School - I	34						34
0152 Rural Primary School - II	1,278	2,000					3,278
0155 Development Related Research	423	-	500	500	500		1,923
0157 Development Support Training	1,500	1,201	1,876	500	500		5,380
0161 Technical Manpower Development	1,800	1,776	2,000	1,951			7,527
0162 Rural Women's Student Residence		3,000	2,000				5,000
0167 Primary School Teacher Training	3,000	2,000	1,000	3,000	3,000		12,000
0169 Design for Rural Women's Student Res.	500						500
New Project Non-Formal Education			1,000	1,000	1,000		3,000
Sector Grant			10,000	10,000	10,000	10,000	40,000
<u>SUB TOTAL</u>	<u>21,561</u>	<u>26,230 b/</u>	<u>32,988</u>	<u>36,201</u>	<u>44,950</u>	<u>36,700</u>	<u>198,630</u>
<u>PL-180 Title III</u>							
Wheat d/		12,000	9,000	5,000			26,000
<u>GRAND TOTAL</u>	<u>21,561</u>	<u>38,230</u>	<u>41,988</u>	<u>41,201</u>	<u>44,950</u>	<u>36,700 c/</u>	<u>224,630</u>

a/ Excludes \$60,000 from FY-1978 and \$100,000 from FY-1979 for centrally AID/W funded contraceptives.

b/ Our CP levels will require Congressional Notification.

c/ This level reflects current planning. We assume that the transitional strategy, however, will permit us to increase the program above the FY-1982 level i.e., \$50.0 million.

d/ Grain stabilization program 70,000, 50,000, 30,000 MT at \$170 MT.

U.S. Development Assistance Program for FY 1978 to FY 1982
by Proposed Strategy

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Total</u>
<u>CURRENT PROGRAM</u>	<u>10,699</u>	<u>13,099</u>	<u>5,212</u>	<u>2,201</u>	<u>200</u>	<u>200</u>	<u>31,611</u>
0131 Rural Dev - Phase I	2,200	1,617					3,817
0149 Central Helmand Drainage II	3,220	6,334	912				10,466
0139 AFGA	145 a/	372 b/	300	250	200	200	1,467
0144 Basic Health Services I	2,800						2,800
0142 Rural Primary School I	34						34
0161 Technical Manpower Development	1,800	1,776	2,000	1,951			7,527
0162 Rural Women's Student Residence		3,000	2,000				5,000
0169 Design for Rural Women's Student Residence	500						500
<u>TRANSITIONAL PROGRAM</u>	<u>10,862</u>	<u>25,131</u>	<u>20,776</u>	<u>10,000</u>	<u>4,750</u>	<u>500</u>	<u>72,019</u>
0163 Integrated Wheat Phase - I	1,851	2,017					3,878
Regional Rural Dev. Phase - I			3,500				3,500
Small-Scale Irrigation Technology		1,000					1,000
MCH Training			750	1,000	750	500	3,000
Demographic Planning & Analysis		150	150				300
Basic Health Services - II	3,000	4,760	4,000				11,760
0150 Rural Primary School II	1,278	2,000					3,278
0155 Dev. Related Research	423		500	500	500		1,923
0157 Dev. Support Training	1,300	1,204	1,876	500	500		5,380
0167 Primary School Teacher Training	3,000	2,000	1,000	3,000	3,000		12,000
PL-480 Title III - Wheat d/		12,000	9,000	5,000			26,000

(Cont'd)

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	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Total</u>
<u>NEW STRATEGY PROGRAM</u>	_____	_____	<u>16,000</u>	<u>29,000</u>	<u>40,000</u>	<u>36,000</u>	<u>121,000</u>
Integrated Wheat - II			5,000	5,000	4,000	3,000	17,000
Regional Development - II					10,000	5,000	15,000
Small Scale Irrigation Dev.				5,000	7,000	10,000	22,000
Health Sector Grant				8,000	8,000	8,000	24,000
Education Sector Grant			10,000	10,000	10,000	10,000	40,000
Non Formal Education	_____	_____	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	_____	<u>3,000</u>
GRAND TOTAL	21,561	38,230 ^{b/}	41,988	41,201	44,950	36,700 ^{c/}	224,630

- a/ Excludes \$60,000 from FY-1978 and \$100,000 from FY-1979 for centrally AID/W funded contraceptives.
- b/ Our CP levels will require Congressional Notification.
- c/ This level reflects current planning. We assume that the transitional strategy, however, will permit us to increase the program above the FY-1982 level i.e., \$50.0 million.
- d/ Grain stabilization program 70,000, 50,000, 30,000 MT at \$170 MT.

SOCIAL ANALYSIS

I. Basic Human Needs

Basic human needs in Afghanistan, measured by almost any international standard, are not being met. The crude death rate is 25 per 1,000, the infant mortality rate is one of the world's highest (180/1,000), and life expectancy at birth is only 35 years. Access to clean drinking water is unknown even for residents of the capital city, and periodic food shortages in some parts of the country have resulted in famine. With a low average mean temperature, the inadequacy of clothing, shelter and fuel is apparent. Education has made only one in twelve literate. In Afghanistan the per capita average income is \$180. The World Bank estimates that anyone with an income below \$85 is living in absolute poverty and is unable to meet basic needs in the market. Anywhere from 20 to 40 percent of the population are in this category. The following charts illustrate Afghanistan's failure to meet basic human needs in comparison with other countries:

	Population Estimate Mid-1975 (millions) ²	Birth Rate	Death Rate	Rate of Population Growth (annual, percent)	Number of Years to Double Population	Population Projection to 2000 (millions)	Infant Mortality Rate ⁶	Population under 15 Years (percent)	Median Age (years)	Life Expectancy at Birth (years)	Dietary Energy Supply (kilocalories per person per day)
Bangladesh	73.7	49.5	28.1	1.7	41	144.3	(132)	46	16.7	36	1,840
India	613.2	39.9	15.7	2.4	29	1,059.4	139	42	15.8	50	2,070
Pakistan	70.6	47.4	16.5	3.1	22	146.9	(132)	46	16.6	50	2,160
Philippines	44.4	43.8	10.5	3.3	21	89.7	(78)	46	17.0	58	1,940
Thailand	42.1	43.4	10.8	3.3	21	85.6	(65)	46	16.9	58	2,560
Korea	33.9	28.7	8.8	2.0	35	52.0	(60)	37	20.4	61	2,520
Iraq	11.1	48.1	14.6	3.4	20	24.4	(99)	47	16.5	53	2,160
Afghanistan	14.5	50.0	25.0	2.5	30	24.1	(180)	45	17.9	35	2,250

NOTE: Afghanistan's figures for 1977; other countries for 1975.

(Sources: World Population Data Sheet, World Bank Report, ISI Reports)

Table 1: Comparison of Near East Bureau Country Estimates with AID/PFC Targets

Indicator	AID/PFC target	Afghanistan	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal
Crude birth rate per 1000 pop.	25 or less	51.4	49.6	37.0	47.6	46.2	45.4	40.0	39.8	19.2
Life expectancy at birth	65 years or more	41.0	37.0	52.4	53.2	53.0	56.0	54.1	63.3	68.7
Infant mortality rate per 1000 live births	50 or less	182	159	100	-	117	93	123	82	46
Calorie intake as percent of requirements	100 percent	82	84	113	99	106	107	54	92	118
Per capita protein intake (in grams/day)	60 or more ^{1/}	51	61	69	65	62	75	67	63	85
Adult literacy rate (as percent of pop. age 15 and above)	75 % or more	14	10	40	62	24	40	55	80	65
Primary enrollment ratio (as percent of primary school age pop.)	98% or more	30	15	72	83	59	98	95	119	100
Per capita incomes for the lowest 20 percent of households (US \$)	\$277 in Latin America \$176 in Africa \$152 in Asia	-	-	72	-	95	-	110	215	-

^{1/} PFC has no official target; USDA recommends a minimum of 60 grams per day while FAO recommends 75 grams per day as minimum.

Table 2. Estimates of Poverty Status Indicators for
the Near East Eastern Countries.

Indicator	Afghanistan	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal	
Population	- population growth rate	2.2	2.4	2.4	3.4	2.4	3.3	2.3	2.8	0.1
with (Via	- percent of population under									
ility Decline)	age 15	43	-	44	47	46	46	43	43	29
	- crude birth rate per 1000									
	population	51.4	49.6	37.8	47.6	46.2	45.4	40.0	39.8	19.2
	- total fertility rate	6.7	7.2	5.2	7.1	7.1	7.1	6.2	6.3	2.6
	- % eligible women with access									
	to family planning	-	-	21	-	7	-	12	14	-
ter Health and	- life expectancy at birth	41.6	37.0	52.4	53.2	53.0	56.0	54.1	63.3	68.7
rition	- crude death rate per 1000									
	population	30.7	20.6	14.0	14.7	15.7	15.4	13.8	9.9	10.5
	- infant mortality rate per									
	1000 live births	182	159	100	-	117	93	125	82	46
	- death rate for children									
	age 1-4 per 1000	-	-	-	-	-	-	15.0	8.0	3.2
	- calorie intake as percent of									
	requirements	83	84	113	99	106	107	94	92	118
	- per capita protein intake									
	(grams/day)	58	61	69	65	62	75	67	63	85
re Widespread	- adult literacy rate for									
ic Education	population 15 years and									
	above	14	10	40	62	24	40	55	68	65
	- primary gross enrollment ratio	30	15	72	83	59	98	95	119	100
gher Income	- percent of income received by									
the Poor	highest 5% of households	-	-	19.2	-	20.0	-	32.3	26.0	-
	- percent of income received by									
	lowest 20% of households	-	-	4.6	-	4.6	-	2.9	4.0	-
	- per capita income in lowest									
	20% of households (US \$)	-	-	72	-	95	-	110	215	-

Goals	Afghanistan	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal
Better Employment Opportunities									
- unemployment rate	7.0	5.5	2.0	2.0	2.0	4.5	14.5	6.0	14.2
- percent of labor force in agriculture	54	69	47	19	50	51	37	19	25
- salaried and wage earners as percent of total economically active population	-	-	-	-	32	42	-	60	70
Improved Agricultural Productivity									
- rate of growth in agricultural production	0.9	1.4	3.0	- 5.2	3.6	1.2	4.9	2.6	0.5
- agricultural production per male agricultural worker (US \$)	-	-	450	-	580	570	620	1580	1310
- adult male agricultural worker per square kilometer of agricultural area	-	-	161	-	21	6	5	26	17
- population density per square kilometer of agricultural area	102	-	1169	165	97	55	66	698	177

Table 2. Estimates of Poverty Status Indicators for
the Near East Bureau Countries

Goals	Indicators	Afghanistan	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal
	- percent of land owned by top 10 percent of owners	-	-	-	-	49.0	-	59.0	57.0	-
	- percent of land owned by smallest 10 percent of owners	-	-	-	-	1.0	-	0.5	1.0	-
	- per capita GNP level (US\$)	130	210	310	460	470	660	750	1070	1610
	- annual growth rate of per capita GNP	1.1	-	1.0	-2.5	2.8	4.2	5.4	3.7	7.6
	- annual growth rate of GNP	3.3	-	3.5	0.7	5.2	7.5	7.6	.5	7.5
Rapid Economic Growth		?	4	54	71	39	77	76	-	92
	- primary gross enrollment ratio for females	-	-	8	5	15	11	24	17	20
Increased Role of Women in Development	- females as percent of total labor force	18	-	-	-	2.1	-	2.7	2.1	-
	- average number of persons per room	-	3.0	-	-	31	71	49	92	-
Improved Access to Shelter, Water and Electricity	- percent of population with reasonable access to water supply	-	4	93	77	65	-	15	66	-
	- percent of dwellings with piped water	-	5	-	-	82	-	24	98	-
	- percent of dwellings with electricity	-	-	-	-	-	-	-	-	-
	- electric power consumption per capita (1980)	20	3	220	71	125	152	155	441	857

Table 3. Near East Bureau Country Rankings in Selected Poverty Status Indicators with respect to all other developing countries ^{1/}

Goals	Indicators	Armenia	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal
Lower Population Growth	population growth rate				x		x			
	percent of population under age 15				x	x	x			
	crude birth rate per 1000 population	x	x							
Better Health and Nutrition	life expectancy at birth	x	x							
	infant mortality rate per 1000 births	x	x							
	calorie intake as % of require ments	x	x							
	per capita prote'n intake (grams/day)									
More Widespread Basic Education	adult literacy rate for population 15 years and above	x	x							
	primary gross enrollment ratio	x	x							
Better Employment Opportunities	percent of the labor force in agriculture									
Improved Agriculture Productivity	rate of growth in agricultural production	x			x					
	population density per square kilometer of agricultural area			x						
Rapid Economic Growth	per capita GNP level	x		x	x					
	growth rate of per capita GNP	x			x					
	growth rate of GNP	x								
Increased Role of Women	primary gross enrollment ratio for females	x	x							
	female as % of total labor force	x		x	x	x	x			

^{1/} An "x" indicates that the country is among the poorest or worst off (25%) of all developing countries with respect to the indicator in question. A "-" indicates data is unavailable for that country.

Table 3. Near East Brown Country Rankings in Selected Poverty Status Indicators
with respect to all other developing countries

Country	Indicators	Afghanistan	Yemen	Egypt	Jordan	Morocco	Syria	Tunisia	Lebanon	Portugal
Improved Access to Shelter, Water and Electricity	percent of population with reasonable access to water supply	-	x							
	electric power consumption per capita (KWH)	x	x							

II. Disparities

While national statistics conclusively demonstrate that Afghanistan's basic needs are not fulfilled, these statistics do not reflect the large disparities in income and access to services such as health and education. These disparities are manifest in a number of dichotomies, the nature and major features of which are described below.

Rural - Urban

While 85 percent of the settled population are classified as rural, national services are directed to the urban population. For example, a disproportionate amount of the health expenditures are for urban hospitals and outpatient services (i.e. 49 percent of the planned 1977/78 expenditures). In education, urban primary schools outnumber rural primary schools on a per capita basis; rural secondary schools are virtually non-existent; and the university caters to the urban elite. While only one in four urban residents is literate, this is five times greater than the rural average. In addition, the price structure shows a strong bias toward the urban population: wheat, gasoline and sugar are all subsidized, and electricity is non-existent outside of the urban centers.

Geography

Afghanistan is split diagonally by the Hindu Kush massif. The Kabul River Basin and other major population centers lie along the single highway system which basically circles this mountainous region. As a result, communications are extremely difficult. It is only in the last fifteen years that all-weather roads have been constructed linking the major cities and joining Afghanistan with neighbouring countries. However, Afghanistan is still a country of many small physically isolated settlements, few of which are linked to the national road system, and remains dependent on long and costly land routes through neighbouring countries for all international trade. Much of the population is still only loosely integrated with the nation as a whole, and the market economy has yet to incorporate a substantial proportion of the rural populace. As a consequence, policies or programs initiated in Kabul have only a limited impact on much of the rural sector.

Ethnicity

As noted, the services and advantages tend to go to those located in the more geographically advantaged areas and not to those who have, through the ages, been pushed higher into the mountains. The best

examples of these disadvantaged are the Kirgiz of the Wakhan, the Hazaras of the central mountains, who also have the added disadvantage of being of the minority Shia sect of Islam in a predominately Sunni country, and the Aymaqs of central western Afghanistan.

The Pashtuns, on the other hand, are located mostly in the lower altitudes and along the borders to the east and south, and are Sunni Muslim. Pashtu areas are the source of both past and current political power, and thus many services and programs are concentrated in these areas. The three major international regional development projects (Helmand, Paktia, and Nangarhar), for example, are in Pashtu areas.

The nomads, accounting for about 10 percent of the total population, are basically transhumant sheep and goat herders, and are isolated from the advantages of national life by their migrations to and from the less accessible areas of the country and the herders' life-style.

Men and Women

The traditional values and orientations, based on interpretations of Islam, limit women's participation in the greater society. The pattern of sex segregation outside the home results in limited use of the male-operated health services and the school system. The education system is perhaps the best example of such sex discrimination. Only 14.5 percent of primary school enrollment are girls, 82 percent of whom are in the first 3 grades. Urban females, however, have greater access to education than rural females -- due both to modernizing influences in urban areas and to the greater number of educational facilities available. For example, 32 percent of the total female primary school enrollment and 61 percent of the total female secondary school enrollment is in Kabul.

Land Tenure

Although land quality and productive potential vary greatly throughout the country, the fundamental disparity in rural income is reflected in land tenure systems. All things being equal, those with land fare much better than those without. Moreover, land in the rural areas forms the basis for political power and is necessary for maintaining culturally prized independence.

Although there are indications that the best land (i.e., well-irrigated land) is more equally distributed among the land-owning class, nationwide land tenure is skewed, with some 20 percent of land-owners holding as much as 75 percent of the land. This does not take into consideration the varying quality of the land, but it does indicate the magnitude of the problem in national terms. Moreover, outside of the rainfed wheat areas, where nearly every family owns some land,

anywhere from 20 to 40 percent of the population may be without access to land whatsoever, i.e., they are agricultural laborers.

The traditional land tenure systems need not in themselves be major obstacles to agricultural improvement. Attitudinal surveys have demonstrated that in several locations all categories of farmers are receptive to new ideas and will respond to appropriate incentives. The landlords take an active interest in their land, and may act as entrepreneurs in risky undertakings. There is, at least in some regions, a tradition of communal responsibility which causes farmers to employ more casual labor than they need in peak periods. The traditional social structure, however, does present difficulties when attempts are made to introduce new forms of organization (e.g., cooperatives, water users' associations, credit groups) or when technological rationalization is attempted (e.g., more equitable water distribution). Any innovation that threatens the existing power structure is likely to be opposed. As a consequence, improvements of productivity through Government programs, without changes in this power structure, will tend to lead to unequal distribution of benefits and thus a worsening of the distribution of income within the community.

Dry Land vs. Irrigated Land

Since most areas of the country require irrigation to achieve adequate yields, the availability and dependability of the water supply is as important as access to land in terms of productivity and levels of income. Differences in water distribution systems vary from region to region, and even within regions. Major irrigation systems, similar to those of the Helmand and Nangarhar, are the most efficient since they are not affected by yearly washouts or late season water shortages, problems which affect most of the smaller river irrigation systems. Springs and Karez systems are least efficient because of their limited capacities and the vagaries of the water table. Systems which provide adequate supplies of water throughout the year allow double-cropping, and this, of course, greatly expands the income potential.

Rainfed wheat farming is locally dependent upon the spring rains for their yields. With sufficient rains, yields can often match or surpass some irrigated fields, but years of sufficient rains are rare and once every three years a farmer can expect a crop failure due to drought. Hectare for hectare, then, the dry land farmer is worse off than his confrere on irrigated land, though the farmer normally has larger holdings, is more often a landowner, and supplements his income with off-farm labor and herding.

Cash vs. Subsistence Agriculture

The above variables combine to produce a situation where some rural areas are well into the cash-crop economy while others approach a nearly pure subsistence economy. Thus, on the one hand, there are the easily accessible areas with good land, major irrigation systems allowing double-cropping, and agricultural processing industries (e.g., the Helmand, Baghlan-Kunduz, and Nangarhar); on the other hand, there are remote areas with precarious water supplies, land characterized by marginal fertility, non-existent markets, and a reliance on herding and off-farm labor to supplement meager incomes (e.g., the Hazarajat, Badakhshan, Zabol, Badghis, etc.).

Conclusion

Afghanistan, in general, is not meeting the basic human needs of its population. Worse still, there are numerous disparities in the distribution of the scarce resources and services currently available. For the most part, rural, inaccessible, and politically powerless regions and people, including the vast majority of females, have received a disproportionately smaller share of the development pie.

III. Target Group

The previous analysis suggests alternative criteria for identifying a target group. Those who live off the land suggest one possible definition. They can be divided into four categories: smallholders, share-farmers, share-laborers and casual laborers. It is assumed this categorization defines a poverty line, but it does not distinguish between a category in one region and another region, nor does it suggest a program to one group as distinguished from another.

The analysis also suggested the variation and severity of climate and topography in Afghanistan is such that physical conditions are the primary determinants of agricultural productivity and therefore of income levels in rural areas. For planning purposes, one could classify the agricultural areas into irrigated, partially irrigated and rainfed; but differential landholdings cut at easy generalizations about individual or even community poverty. For example, see the chart on page 14.

The previous analysis suggests still other approaches based on regional, personal or economic characteristics; but we are forced to conclude there is no easy quantitative definition of the poor. The importance of knowing, of course, is to give coherence to program development. A target group is not a truth to be found, but rather a concept to be defined. Subsistence provides a useful definition. This definition requires us to concentrate on the more disadvantaged and thus poorer areas of the country. Because of the great diversity

and heterogeneity of Afghanistan, it is a problem to identify these poorer areas. The World Bank gives us a lead, however, when they observe that "the average of land/villager is a rather good index of the average living standard, since land represents a pool of potential income which is available for distribution."

The chart on page 15 provides a tentative identification. For example, the West Central Region of the country, the Hazarajat, ranks relatively low in its land to population ratios, as does the Southern region of Paktia, Ghazni, and Zabul Provinces. An even better indication of the wealth of an area, however, is the amount of hectares devoted to the cultivation of high-yielding varieties (HYV). This is provided on page 16. The West Central and Southern Regions again rank lowest. This chart also explains the apparent anomalies that appear in the earlier chart. For example, although the Northern Region has a very high land to population figure, particularly for irrigated land, the low use of improved seed and fertilizer (complete statistics not available) indicates that the area is primarily characterized by semi-irrigated lands, with insufficient water supplies to cultivate HYV. Other sources indicate that perhaps half of this irrigated land remains fallow each year due to the water constraint.

Statistics on the use of improved seed also explain the wealth of areas which have low land to population ratios. The East Central Region, for example, has the lowest land to population ratio, but according to the data on HYV use it is one of the largest cultivators of the high-profit seed; in addition, with fairly dependable water supplies, these farmers are doing a good deal of double-cropping. An average farm family can stay well above subsistence on an hectare holding of well-irrigated, double-cropped land, which is the case in the Eastern Central Region.

Given this tentative identification of poorer and more disadvantaged provinces or regions which for the most part are not participating in the market economy, the Mission will focus only on those areas where our efforts will directly benefit the poor and where we will not be in competition with other major donors. Thus, we will not work in Nimroz because the area is dominated by a very small number of Baluch Khans who own nearly all the land, and we will not work in Paktia or Nangarhar Provinces, which are currently the scenes of German and Russian development programs, respectively. In addition, because of the political sensitivity, we will not work in the Nuristan area (Laghman/Nangarhar).

The area remaining, then, after we have excluded the wealthy areas and those cited above, comprise a somewhat concentrated group of provinces inhabited by the poorer people of Afghanistan. This consists of parts of the following regions: The Hazarajat (Bamian, Oruzgan, Ghor), the Northern Region (Samangan, Balkh, Jawzjan, Faryab), the Western Region (Ferah, Badghis), the Northeast (Takhar, Badakhshan), and the Southern (Ghazni, Zabul). (See the map at page 18).

Subsistence Farm Size: Ave Family of 6

	Owner Operator (100%)	Share-cropped (50%)	Share-labor (20%)
Dry-Land Wheat	21.1 hectares	42.2	105.5
Irrigated Wheat - non-HYV	4.8	9.6	29.0
Irrigated Wheat - HYV	2.8	5.6	14.0
Irrigated - double - cropped wheat, cotton and other crops w/adequated and improved conditions	1.0	2.0	5.0

This chart indicates the relationship between income and land quality. The better the quality of the land, the more income, and thus the less land actually required to maintain a family of six above subsistence. In addition, the chart illustrates how different tenures can affect income (e.g., no matter what quality of land, the farmer will need twice as much if he is a share-cropper rather than an owner-operator -- since he must give $\frac{1}{2}$ the crop to the landlord. Conditions worsen by a factor of 5 if the farmer is a laborer rather than an owner-operator since he receives only $\frac{1}{5}$ of the crop yield).

Chart: Population to Land Ratios

Province	(000's) * Population	(000's) Hectares dry land	Ratio dry land to pop.	Hectares Irrig. land	Ratio Irrig. to pop.	Total Hectares arable land	Overall ratio land to Population
<u>East Central</u>							
Bol	1505	5.0	.003	44.4	.03	49.4	.03
Chowan	1177	6.9	.006	58.0	.05	64.9	.06
Ordak	381	0.9	.002	22.4	.06	23.3	.06
Yar	321	8.6	.027	21.2	.07	29.8	.09
Totals	3384	21.4	.006	146.0	.04	167.4	.05
<u>Northern</u>							
Bazni	1032	24.9	.024	96.8	.09	121.7	.12
Qatia	929	15.7	.017	44.1	.05	59.8	.06
Bol	301	9.1	.030	51.6	.17	60.7	.20
Totals	2262	49.7	.022	192.5	.09	242.2	.11
<u>Eastern</u>							
Garhar	1177	10.6	.009	88.2	.07	98.8	.08
Shaman	279	0.7	.003	33.2	.12	33.9	.12
Totals	1456	11.3	.003	121.4	.08	132.7	.09
<u>North West</u>							
Shuz	479	42.9	.090	168.5	.35	211.4	.44
Khhar	479	149.1	.311	49.1	.10	198.2	.41
Bakhshan	434	60.8	.140	51.7	.12	112.5	.26
Shlan	578	74.8	.129	68.6	.12	143.4	.25
Totals	1970	327.6	.166	337.9	.17	665.5	.34
<u>Western</u>							
Shangan	508	72.9	.237	36.1	.12	109.0	.35
Shyab	505	96.4	.191	101.7	.20	198.1	.39
Shzjan	418	49.9	.119	151.0	.36	200.9	.48
Shkh	438	44.3	.101	181.6	.41	225.9	.52
Totals	1669	263.5	.158	470.4	.28	733.9	.44
<u>Eastern</u>							
Shah	372	11.3	.030	102.0	.27	113.3	.30
Shrat	751	168.5	.224	136.3	.13	304.8	.41
Shghis	356	60.3	.169	26.5	.07	86.8	.24
Totals	147	240.1	.162	264.8	.18	504.9	.34
<u>North West</u>							
Shmand	295	0.1	.000	119.2	.40	119.3	.40
Shdahar	822	19.7 **	.024	103.9	.13	123.6	.15
Shroz	105	0.02	.000	49.6	.47	49.6	.47
Totals	1222	19.8	.010	272.7	.22	292.5	.24
<u>East Central</u>							
Shyan	340	3.4	.010	20.1	.06	23.5	.07
Shzgan	472	2.2	.005	114.5	.24	116.7	.25
Shor	348	48.1	.138	56.9	.16	105.0	.30
Totals	1160	53.7	.046	191.5	.17	245.2	.21

Chart _____

Area Planted with Improved Wheat Seed

<u>Region</u>	<u>Total Irrigated (000s)</u>	<u>Hectares Under HYV</u>	<u>Percent to HYV</u>
East Central	146.0	12.8	8.76
Southern	192.5	2.5	1.29
Eastern	121.4	4.5	3.71
Northeast ^{1/}	337.9	11.9	3.52
Northern	470.4	10.5	2.23
Western	264.8	14.2	5.36
Southwest ^{2/}	272.7	71.7	2.63
West Central	191.5	3.2	1.67

Notes:

1. A good deal of land is also planted to cotton and sugar beets.
2. Most of this production of HYV is in the Helmand; similarly, there is a large amount of cotton and corn production there as well.

Explanatory Notes to All Charts

1. Ideally, the population figures used would be for only those gaining a portion of their livelihood from the land. Unfortunately, these figures are not available.

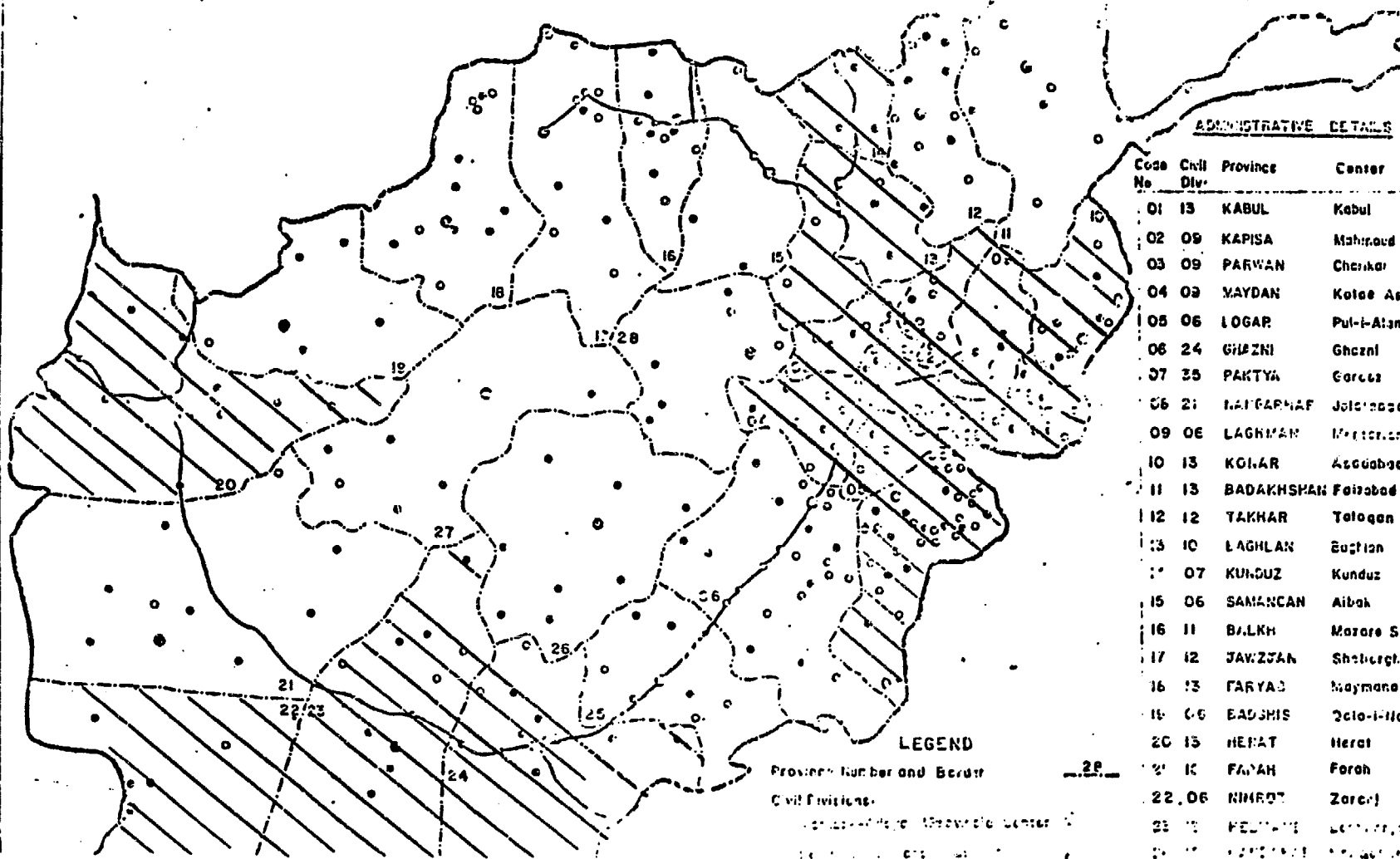
2. Dry land hectareage is somewhat misleading, since only one-third is ever under cultivation in one year. Similarly, in many of the irrigated areas water shortages necessitate fallowing of at least half of the potentially irrigable land.

3. Comparing the gross regional ratios of land to population, several figures stand out. The East Central area is the lowest, mainly because of so little land in Kabul; but even if Kabul were removed from the figures, the East Central Region is still lowest. Much of the low income derived from farm work, however, is supplemented by off-farm labor in and around Kabul. But probably most important is that this is the vegetable and grape growing region, where the average size holding need not be large to gain a modest income. Similarly, the Baghlan figure is low and thus somewhat misleading because of the production of sugar beet and cotton in a very concentrated part of the province - these are strictly cash farmers, growing very little wheat. Thus, despite the small holdings of irrigated land, incomes are rather high.

4. The statistics as noted make no distinction between the quality of irrigation in different parts of the country. Thus, the northern region, where water supplies are very precarious, looks rather good in its land/population ratios. One-half of this land, however, is fallow every year and little of it is devoted to HYV.

5. The rich southwest, Helmand, is somewhat low on the overall ratio, but is rather high on the irrigated land to population ratio, primarily because there is so little rainfed wheat land in this region. This figure would be even higher if it were not for the poorly irrigated areas of Kandahar province.

AFGHANISTAN



ADMINISTRATIVE DETAILS

Code No	Civil Div.	Province	Center
01	13	KABUL	Kabul
02	09	KAPISA	Mahmoud
03	09	PARWAN	Cherkar
04	09	MAYDAN	Kotee Asi
05	06	LOGAR	Pul-i-Alam
06	24	GHAZNI	Ghazni
07	35	PAKTYA	Gardiz
08	21	NAI-GARNAF	Jalalabad
09	06	LAGHMAN	Mertan
10	13	KOKAR	Asadabad
11	13	BADAKHSHAN	Fairabad
12	12	TAKHAR	Taloqan
13	10	LAGHLAN	Bustan
14	07	KUNDUZ	Kunduz
15	06	SAMANGAN	Aibak
16	11	BALKH	Mazare Sh
17	12	JAWZJAN	Shebergha
18	13	FARYAB	Maymana
19	06	BAKSHIS	Talo-i-Hilo
20	13	HERAT	Herat
21	11	FARAH	Farah
22	06	NIMROZ	Zarcho
23	10	HELMAND	Canal
24	11	CAPORE	Canal

ANNEX C

ECONOMIC ANALYSISI. Afghanistan's Growth Strategy

The size and structure of the economy of Afghanistan requires that any growth strategy rely heavily on international trade. Current low levels of income severely limit the domestic market even for simple manufactured goods. Moreover, sizable surpluses in agricultural production in a farm economy can only be absorbed through export. Current low levels of income severely limit the domestic market even for simple manufactured goods.

The strategy of the GOA recognizes the necessity of basing its development on trade, but focuses on heavy industry along the lines of a Soviet model. This strategy is clear from the Seven Year Plan. Industry, mines and energy account for sixty percent of the total allocation although these categories account for less than ten percent of GNP and three percent of employment. Agriculture and irrigation receive only twenty-five percent of the overall allocation but account for sixty percent of GNP and over seventy percent of employment.

This strategy does not build on Afghanistan's comparative advantage. Markets for industrial production are doubtful. Neighboring countries have economies that are further advanced industrially and are reluctant to open their markets to foreign competition. There are technical difficulties with major investment schemes which raise serious question as to their economic feasibility. Past investments have not been profitable. Most important, there is neither the management capability nor skilled and disciplined work force necessary to make even a medium sized enterprise efficient.

In contrast, Afghanistan is uniquely well placed by its geography and climate to supply agricultural products to the rapidly growing markets in Iran and the Middle East. Afghanistan's current foreign trade pattern and its rate of expansion is highly suggestive of a comparative advantage in agriculture. More than three-quarters of Afghanistan's export earnings are in agriculture. All major export items, with the exception of natural gas, are based on agriculture. See Table No. 1.

TABLE I
VALUE OF EXPORTS OF PRINCIPAL
COMMODITY 1972/73 - 1976/77
(\$U.S. million fob)

	<u>1972/3</u>	<u>1973/4</u>	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u> (1)
Dried Fruits and Nuts	30.5	44.6	58.2	54.7	74.4
Fresh Fruits	10.7	21.6	31.5	20.1	27.0
Ginned Cotton	11.1	7.2	34.7	35.3	68.1
Karakul	16.1	17.0	12.7	10.4	22.5
Carpets and Rugs	10.8	14.5	19.9	16.1	24.1
Natural Gas	17.1	18.0	32.1	46.3	36.3
Others (2)	<u>28.2</u>	<u>36.2</u>	<u>41.5</u>	<u>52.6</u>	<u>57.6</u>
TOTAL	124.5	159.1	230.6	235.5	310.0

(1) Provisional

(2) Most of which are agricultural

Also significant is the rate of growth in the volume of agricultural exports over the past five years. The rate of expansion for the five major agricultural related exports has exceeded ten percent per annum. Cotton has shown the greatest increase, but fresh fruit exports have had particularly rapid growth. Most of these increases are attributable to expansion of areas planted rather than through gains in yields. The potential for a much greater efficiency in production exists. This would further enhance agricultural competitiveness.

Moreover, the expansion of exports has occurred with Afghanistan's traditional trading partners; the large and increasing Middle East market for agricultural output has barely been tapped. Less than three percent of Afghanistan's recorded exports were shipped to Iran in 1974/75, the latest year for which data are available.

The implications for a growth strategy are unmistakable. Afghanistan's comparative advantage lies in agricultural production and processing, not in heavy industry. The demand prospects for agricultural exports are good. World Bank estimates indicate that the export value of vegetables, livestock, cotton and fruit and nuts could expand by fifteen percent per annum over the medium term.

A major advantage of agricultural based growth is that it directly impacts on the rural poor. It will directly produce increased employment and incomes in the market where the vast majority will continue to meet their most basic needs. It also is likely to have a significant income multiplier effect.

An agricultural strategy does not mean that industrial projects should not be undertaken; but they should be looked at very carefully. There are some possibilities for import substitution, particularly in textiles. Increased cement production is also warranted. A good potential exists for an agricultural processing industry which would complement expanded agricultural production. A light consumer goods industry to meet the demands from the increased incomes of agricultural families also would seem to be a possibility in the future. The main thrust, however, must remain in agriculture for the medium term.

II. Resource Mobilization

A major constraint to further economic and social progress in Afghanistan is the low level of resource mobilization for development. Current public and private net investment levels probably do not exceed ten percent of GNP. At any reasonable capital output ratio, this will sustain an income growth rate only slightly above the rate of population growth. The purpose of this section is to analyze Government mobilization efforts and determine where such efforts can be expanded. Three types of resource mobilization will be discussed; fiscal efforts on the part of Government, private investment, and community based self-help activities.

Government Revenue Efforts. Afghanistan's tax effort is extremely limited even by developing country standards. Taxes amount to only seven percent of GNP. This is less than half the rate of taxation for a sample of 47 developing countries.

Notwithstanding this low level, tax receipts have expanded by an average of twenty-two percent between 1972/73 - 1976/77. Income taxes have increased threefold as larger numbers of individuals and businesses have begun paying taxes. Taxes on international trade more than doubled due to an increase in import taxes and a selective export tax to absorb windfall profits, and through rapid growth in international trade. Non-tax revenues virtually doubled, profits from natural gas sales to the Soviet Union providing two-thirds of the increase. See Table 2.

Table 2 CENTRAL GOVERNMENT REVENUE, 1972/73-1977/78
(millions of Afghanis)

	1972/73	1973/74	1974/75	1975/76	Revised 1/ Estimates 1976/77	Budget 1977/78
Current revenue	5,688	6,562	9,525	11,169	12,686	13,894
Tax revenue	3,196	4,056	6,585	6,709	7,934	8,629
Tax on net income & profits:	484	730	907	1,065	1,529	1,857
Corporate and income taxes	254	367	447	494	862	1,102
Individual income taxes	230	363	460	571	667	785
- Taxes on Property:	78	83	95	97	151	500
Real estate (land) tax	78	83	95	97	151	500
Livestock tax	-	-	-	-	-	-
Taxes on Goods and Services:	196	253	262	289	762	450
General sales tax	19	51	63	139	121	141
Selective excises	49	59	68	62	84	85
Licenses 2/	29	37	79	88	95	114
Other taxes on Goods and services	102	106	52	-	462	110
Taxes on International Trade and Transactions:	2,281	2,914	5,113	5,292	5,472	5,770
Import duties 3/	1,968	2,494	3,868	4,161	4,343	4,661
Export duties 3/	250	216	320	257	373	414
Selective export tax 4/	-	1	893	666	653	585
Exchange profits 5/	42	70	-	-	-	-
Other	21	30	32	116	103	110
Other taxes 6/	157	176	208	16	20	22
Non-tax revenue:	2,492	2,506	2,940	4,460	4,752	5,265
Property income:	1,361	1,694	1,916	3,452	3,527	4,051
From public enterprises	(928)	(735)	(447)	(523)	(250)	(814)
Sales of natural gas (gross)	(727)	(690)	(1,175)	(2,375)	(2,347)	(2,164)
Other	(206)	(269)	(294)	(554)	(930)	(1,073)
Administrative fee, charges, etc.	337	363	403	599	833	737
Other	294	449	621	409	392	477
Capital revenue	62	75	144	129	124	189
Total revenue	5,750	6,637	9,669	11,299	12,810	14,362

Source: Ministry of Finance and Da Afghanistan Bank

Footnotes:

- 1/ The revised estimates for 1976/77 are based on provisional actuals for ten months.
- 2/ Include motor vehicle registration fees.
- 3/ Includes revenue from fixed import and export taxes.
- 4/ Data from Research Department, Da Afghanistan Bank. This item represents revenue from selective taxes on cotton, oilseeds, raisins, and walnuts.
- 5/ Staff estimates based on data provided by the Research Department, Da Afghanistan Bank. This item represents profits from government foreign exchange transactions with Da Afghanistan Bank.
- 6/ Includes stamp taxes.
- 7/ The 1977/78 Budget combines exchange profits and selective export taxes under the heading "Commercial transactions". The latter have been decomposed into the two former components in the same proportions as they were in 1976/77. Since exchange subsidy exceeds the resulting exchange profits and we present these data on a net basis, there is no entry here for exchange profits.

The reasons for limited tax performance are twofold. First, tax administration is weak in Afghanistan and tax assessments are subject to personal interpretation of tax collectors. This has led to widespread tax avoidance.

Second, the structure of the economy is not conducive to easy or equitable taxation. Probably one-quarter of GNP is subsistence income, unmonetized and untaxable. Ten to fifteen percent of the population is nomadic and virtually untaxable. Foreign trade, typically the easiest and most important source of taxation, is small. In addition, smuggling is a time honored activity in Afghanistan. Attempts to increase taxes on internationally traded items increase the incentive to smuggle. Modern industry and mining, the more easily taxable domestic sectors, account for only three percent of GNP. Moreover, modern accounting practices do not exist in Afghanistan even among large-scale Government enterprises. This makes sales, value added or business income taxes difficult to utilize. More than fifty percent of income and seventy percent of employment in Afghanistan derives from agriculture or rural handicrafts, typically the most difficult areas to tax.

The source of actual tax revenue in Afghanistan bears out the above discussion. While foreign trade is limited, taxes on it account for three-quarters of tax revenues. This is more than twice the percentage for other developing countries. Income taxes account for only sixteen percent of tax revenues. Taxes on production and internal transactions yield only four percent of total taxes compared to thirty percent in other developing countries.

Non-tax revenues accounted for twenty percent of total revenues. There were predominantly natural gas sales to the Soviet Union. The income earned from other public enterprises, though they comprise almost all major industrial establishments, is very low and is falling.

The prospects for a rapid increase in tax revenues relative to GNP are not good. Imports are already heavily taxed. While imports are expected to increase rapidly, much of this will be in capital goods, which are subject to lower tax rates. Exports will be mainly agricultural with limited potential for revenue generation. Income growth will be in agriculture, the most difficult sector to tax; thus, income tax elasticity is likely to be low. The Seven Year Plan projects major improvements in revenues

from public enterprises. This is probably unrealistic given the consistently poor performance of public enterprises in Afghanistan. Moreover, earnings from natural gas are likely to become less important as a result of a recent conservation policy.

Taxes on petroleum products represent one potential area for revenue increases. If the selling price of gasoline and diesel oil were to double, as proposed by the World Bank, it is estimated that the resulting revenues could increase total taxes by fifteen to twenty percent.

Another way to increase resources to the Government is to reduce existing subsidies. The largest of these are for sugar and for civil servants wheat. While a reduction in the subsidies to civil servants would probably be matched by increased direct wage payments, the sugar subsidy does represent an important potential for easing financial constraints.

Charging fees for Government services is another way to raise revenues. Very little has been done in this area in the past. The Government is considering such an approach in the health sector.

Overall, the outlook for significant expansion of Government revenues in the short run is not good. The Seven Year Plan projects revenue increases at a rate of ten percent per annum. Given the unrealistic projection for income from Government enterprises, actual revenue growth is likely to be substantially less.

Self-Help Activities. Perhaps the greatest prospect for increasing the capacity of Government to provide needed public services is to encourage self-help measures. The rural sector, so difficult to tax directly, could pay in direct labor or cash contributions for local projects. The advantages are: (1) the beneficiary pays for what he gets; (2) there is less leakage than going through inefficient central government processes; and (3) there is greater likelihood that maintenance at the local level will occur. One difficulty is enticing a population, accustomed to waiting for Government services, to contribute even a portion of the requirements. Another difficulty is enticing the Government to insist on self-help contributions.

Private Enterprise. Non-agricultural private enterprise is extremely important in the Afghan economy, perhaps contributing

forty percent to GNP. The majority of these are small-scale and handicraft or service oriented. This sector has not been dynamic.

The potential for significantly increased investment in the private sector is great. There are strong indications that private savings have been considerable over the past several years and these have not been utilized. The most significant constraint is uncertainty of Government intentions toward private enterprise. The Seven Year Plan gives scant attention to the private sector and the new constitution does little to encourage private investment. This has resulted in a "wait and see" attitude among potential entrepreneurs.

Several recent developments give reason for guarded optimism. The revision of the Foreign Domestic Private Investment Law (FDPIL) provides incentives for the private sector, including more generous tax holidays, duty exemptions on import of capital goods and duty reductions on raw materials, among others. Also, the Industrial Development Bank of Afghanistan (IDBA) has taken a number of major initiatives to stimulate investment in small-scale industry. Interest rates have been reduced and collateral requirements have been significantly eased.

Other constraints to investment in the private sector have been addressed. These include the removal of all taxes on industrial licenses, pending approval of a mortgage law, and the development of an Afghan investment consulting organization. The initial results of these actions are encouraging. For example, approximately 75 concessional loans for small-scale industry have been approved by IDBA during the past five months, compared with 28 during the previous two and one-half years.

We conclude that while there are significant opportunities for stimulating increased private investment, the potential for mobilizing additional government resources for development is limited. The possibilities of using more self-help measures can enhance the country's capacity to provide basic social services and infrastructure. The realization of the potential of private investment and self-help measures requires a change in Government policies.

III. Allocation of Government Expenditures.

Government expenditures are small in relation to GNP, although they have been increasing in recent years. In 1972/73 total expenditures on both the ordinary and development budget amounted to 10.8 percent of GNP; by 1976/77 this proportion had risen to 18.3 percent. During this same period, the proportion of the budget allocated for development projects increased from 44 percent to 54 percent. See Table 3.

Within this budget there are serious allocation problems. Programs addressing basic human needs receive low priority. Agricultural programs were allocated less than two percent of the ordinary budget and 20 percent of the development budget in 1977/78. The Seven Year Plan allocates 25 percent of the development budget to agricultural programs, yet agriculture contributes 60 percent of GNP and 70 percent of employment.

Allocations for social services are also low. Health accounted for 3.7 percent of the 1977/78 budget and during the course of the Seven Year Plan this is projected to drop to 3.1 percent. Health accounted for an even smaller portion of the development budget. It was allocated less than three percent of the total in 1977/78 and is expected to average only 1.2 percent over the planned period.

Even more disturbing than the low budget levels for health is its internal allocation. Urban hospitals receive a disproportionate 49 percent share of the budget. During a recent exercise to reduce the health budget the Ministry of Finance actually increased the hospital budget.

If rural populations are to receive minimum health services, programs addressing their problems must receive significantly greater resources. This will require larger budget allocations as well as a shift of priorities within the health sector. Continued emphasis on providing urban health services precludes the possibility of an equitable health system.

Education receives a greater proportion of the budget than does health but it is still seriously inadequate. The proportion of GNP devoted to education is less than two percent. This ranks Afghanistan in the lower quartile of developing countries. The proportion of the 1977/78 ordinary budget going to education is 19 percent and this is projected to remain

Table 3 : DISTRIBUTION OF CENTRAL GOVERNMENT EXPENDITURES
1972/73-1977/78
(millions of Afghanis)

	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>Budget 1977/78</u>
<u>TOTAL ORDINARY</u>	<u>4923</u>	<u>5419</u>	<u>5663</u>	<u>8354</u>	<u>9587</u>	<u>9790</u>
A. <u>Overhead Expenditure</u>	<u>2910</u>	<u>3104</u>	<u>3245</u>	<u>3762</u>	<u>4072</u>	<u>4907</u>
Gen. Admin. and	<u>791</u>	<u>880</u>	<u>887</u>	<u>1100</u>	<u>1274</u>	<u>1486</u>
Public Order						
Defense	<u>1460</u>	<u>1545</u>	<u>1608</u>	<u>2114</u>	<u>2184</u>	<u>2731</u>
Public Debt (interest)	<u>659</u>	<u>679</u>	<u>750</u>	<u>548</u>	<u>614</u>	<u>690</u>
B. <u>Social Services</u>	<u>1230</u>	<u>1412</u>	<u>1429</u>	<u>1569</u>	<u>1953</u>	<u>2430</u>
Education	<u>968</u>	<u>1083</u>	<u>1120</u>	<u>1243</u>	<u>1550</u>	<u>1850</u>
Health	<u>186</u>	<u>192</u>	<u>204</u>	<u>268</u>	<u>342</u>	<u>373</u>
Other	<u>76</u>	<u>137</u>	<u>105</u>	<u>58</u>	<u>61</u>	<u>207</u>
C. <u>Identified Subsidies</u>				<u>1306</u>	<u>649</u>	<u>689</u>
Foreign Exchange	-	-	-	<u>328</u>	<u>367</u>	<u>397</u>
Government Monopolies	-	-	-	<u>778</u>	<u>82</u>	<u>42</u>
Wheat for civil servants	?	?	?	<u>200 1/</u>	<u>200 1/</u>	<u>250 1/</u>
D. <u>Pensions, Economic Services and Other</u>				<u>1717</u>	<u>2913</u>	<u>1741</u>
Transfer to Pension Dept.	?	?	?	<u>300 1/</u>	<u>300 1/</u>	<u>300 1/</u>
Economic Services, Other	?	?	?	<u>1417</u>	<u>2613 2/</u>	<u>1441</u>
<u>C + D</u>	<u>783</u>	<u>903</u>	<u>989</u>	<u>3023</u>	<u>3562</u>	<u>2453</u>
<u>TOTAL DEVELOPMENT</u>	<u>4326</u>	<u>3672</u>	<u>4648</u>	<u>6065</u>	<u>11500</u>	<u>20233</u>
<u>GRAND TOTAL</u>	<u>9249</u>	<u>9091</u>	<u>10311</u>	<u>14419</u>	<u>21087</u>	<u>29626</u>

1/ Budget data

2/ Includes 620 budgeted for salary increased plus a large sum for purchase of banks.

Source: Ministry of Finance.

constant during the course of the Seven Year Plan. Only three percent of the 1977/78 development budget is allocated to education, and this percentage is expected to average only 1.7 percent over the course of the Seven Year Plan. Given the current high level of population growth and the potential for even much higher rates in the future, and given the small percentage of the school-age population presently enrolled, these allocations are clearly insufficient to have a major impact.

As in health, the relative priorities within the education sector appear to be unnecessarily skewed against the rural majority of the population. In the past five years 37 percent of education's ordinary budget and 42 percent of its development budget have been spent on primary education; there are two million primary school-age children. These figures were 16 percent and 39 percent respectively for higher education; there are ten thousand university enrollees. Unless greater attention is given to education in general, and primary education in particular, Afghanistan will continue to have a majority of its population illiterate and untouched by the modernizing influences of formal schooling.

The Government's allocation of its expenditure is based on a development model which is urban oriented and industrial based. To meet the needs of Afghanistan's population will require a fundamental restructuring of Governmental priorities. The basic income, health and education needs of the population should be attacked directly. Thus, a greater portion of Governmental resources within those sectors funding must be directed to basic needs. That implies the structuring of delivery systems to impact the rural agrarian population.

IV. Foreign Exchange Situation

As of January 1978, the level of Afghanistan's foreign exchange stood at approximately \$365 million, equal to 10 months of imports at 1976/77 rates. This is about four times the level of March 1975. Reserves increased about \$60 million in 1976 and 1977 and then jumped by approximately \$150 million this past year. Foreign reserves grew primarily as a consequence of rising export commodity prices and very sharp increases in the foreign exchange remittances of Afghan workers in Iran and Arab countries.

The GOA has intervened in the free money market to slow the appreciation of the Afghani. These purchases have totalled \$50 million in the past 18 months. Notwithstanding such interventions, the Afghani has appreciated vis-a-vis the dollar from 55 Afghanis in March 1975 to 43 Afghanis currently.

The GOA interventions, combined with significant deficit financing of public expenditures, caused the money supply to rise by some thirty-two percent during 1976/77 alone. Notwithstanding this increase in the money supply, prices rose only a moderate six percent. This was much less than would be expected from the increase in money supply. The modest rate of inflation was apparently due to the very low marginal propensity to consume the growth in private incomes and the willingness of the private sector to absorb this increase in money supply.

An official reserve level sufficient to finance 10 months' imports is higher than that of the normal developing country, but is not believed excessive for Afghanistan given the volatile precautionary and speculative nature of the greatly increased stock of savings held by the private sector. But any significant further increase in foreign reserves would not be desirable, nor would any further appreciation of the Afghani. It is generally conceded that an exchange rate of approximately 50 Afs to the dollar is desirable to provide adequate export incentives -- the key to significant growth in GNP. Thus, any additional appreciation of the Afghani would undermine planned export expansion and be detrimental to Afghanistan's economic development.

The problem facing the GOA is not an easy one. It must seek to stabilize its foreign exchange holdings, avoid any further appreciation of the Afghani, and deter excessive inflationary pressures. The GOA believes foreign remittances have leveled off

and will not increase this year. Export earnings are also expected to decline slightly due to decreases in export prices and reduced export crop production. Despite this, the GOA must find additional ways to increase imports to absorb \$50-\$100 million in foreign exchange annually required to bring its international accounts into balance.

Officials at the Da Afghanistan Bank argue that a number of steps have recently been taken to check the growth in reserves. Until recently the GOA subsidized exports by offering a special conversion rate for all export goods, i.e., 48 Afghanis to the dollar. Now all export earnings except those of six commodities must be converted at the free market price. A new government procurement law has been promulgated making it significantly easier to purchase foreign commodities. In addition, Central Bank officials state that they have urged the GOA to use foreign exchange for economically sound investments, such as the construction of a cement plant and match factory, and for the purchase of wheat. Finally, they point out that the GOA will be required to increase substantially its debt repayments from approximately \$30 million now to over \$80 million annually by 1981.

While it is difficult to assess the success of these efforts at the present time, it is encouraging that no GOA intervention in the money market has been required in CY 1978, a sharp contrast to last year at this time. Only the future will tell how earnestly the GOA will seek to increase productive use of foreign exchange to promote Afghanistan's economic development. But it is clearly in the interest of Afghanistan to see that these foreign exchange resources are used productively and in a manner which avoids excessive inflationary pressures.

In conclusion, the recent increase in Afghanistan's foreign exchange reserves is a mixed blessing. On the positive side, it permits the GOA to pursue broader development policies without serious fear of foreign exchange constraints. Unlike many developing countries, Afghanistan has followed a prudent monetary policy which has avoided excessive inflation, kept the Afghani fully convertible on the free market, and avoided the creation of foreign exchange constraints. This is all to the good. Moreover, given the high level of private precautionary and speculative savings, foreign reserve holdings for 10 months of imports is not unreasonable. On the negative side, the GOA has had difficulties controlling the exchange rate. Clearly, the GOA must adopt policies

which channel future foreign exchange growth into development activities, a course the GOA states it is now following.

The present situation does not call for any reduction in the foreign assistance efforts of donors. Afghanistan remains one of the least developed countries in the world and requires substantial foreign technical assistance as well as additional investment resources if it is to begin to meet the basic human needs of the majority of its population.

V. Labor Migration

The dramatic increase of oil prices and the resultant economic expansion in the OPEC countries in 1973 has generated significant employment prospects for Afghan workers. It is estimated that 10 to 15 percent of the adult male labor force worked at least part of last year in OPEC countries, notably Iran. These migrants are primarily unskilled laborers and construction workers.

The effects of this migration are felt throughout Afghanistan. The number of migrating workers varies with the crop situation in Afghanistan. During a poor crop year there is a reduced opportunity cost to leave farms prior to the harvest; in good years there is less pressure to leave. There are reports of increasing difficulties in attracting sufficient farm labor particularly at harvest time. Wage rates for casual labor have increased from an average of about 40 afghanis per day in 1976 to 60 afghanis per day in 1978, a real increase of about 33 percent. At the height of the last harvest season rates of 100 afghanis or more had to be paid to secure labor. The cotton harvesting areas of the south and the provinces bordering Iran have been particularly affected.

In Herat, the province most accessible to Iran, wheat prices are currently 20 percent higher than any other reporting market in the country. Such increased demand probably arose from a combination of enlarged incomes from Iranian sources and from a decrease in local production. It has been estimated that as much as one quarter of the Herat wheat land was left unplanted last year as farmers chose to find work elsewhere.

The increased opportunities in Iran for Afghanistan's under-employed and the associated increased income prospects are undeniably beneficial in the short run, but it does have consequences for Afghanistan's longer term development. If the Iranian labor market continues to absorb large numbers of Afghans, the agricultural labor force will decline, wages will continue to rise and mechanization will be increasingly economic. The problem, however, is that Iran may be an unreliable market. If structural changes are made in the Afghan economy based on labor migration, a sudden closing of the labor market would have severe repercussions. A second problem, of course, is the potential drain of the highly skilled from Afghanistan. In a country already short of skilled manpower, this looming threat should be of major concern. The uncertainty of the situation could be lessened if Afghanistan and Iran had a formal understanding to regulate the flow of labor.